

SUMMARY TABLE 1. (Continued)

Group	Number of Beneficiaries	Benefits			
		Current Law	Generic I	Modified I	Modified II
Other Divorced Women					
Total	2.9	6,190	6,920	7,230	7,210
Worked at least 30 yrs.	2.2	6,630	7,340	7,660	7,650
Worked fewer than 30 yrs.	0.7	4,810	5,600	5,880	5,810
Widowers					
Total	3.8	9,680	10,140	10,160	10,130
Divorced Men					
Total	4.4	9,550	8,960	9,000	8,980
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Percent Change in Total Benefits in 2030 Paid to Elderly and Nonelderly Recipients Relative to Current Law					
Elderly <u>c/</u>	--	--	1.0	2.6	-1.5
Nonelderly <u>d/</u>	--	--	8.3	25.4	24.9
Total	--	--	1.6	4.5	0.8

SOURCE: Congressional Budget Office simulations.

- c. These estimates include elderly groups not shown in the top panel of the table--about 5.4 million couples in which only one spouse would be receiving benefits, and 6.7 million never-married individuals.
- d. The estimated increases in benefits for the nonelderly largely reflect the effects of expanding coverage for disability benefits.

substantial employment histories would increase relative to that of other couples, better reflecting their relative Social Security payroll tax contributions. This would result from replacing spousal benefits with benefits based on shared earnings records.

Second, the benefits paid to survivors would also be less affected by the proportion of total wages earned by each spouse. Thus, the average benefit of widows with substantial work histories would increase relative to that of other widows. This would result from their benefits under earnings sharing being determined by a combination of their own and their deceased husbands' shared earnings records. Under current law, they receive benefits based on either their deceased husbands' earnings or their own.

Third, divorced women (especially those whose ex-husbands were alive) would receive significantly higher benefits than under current law. A divorced woman now receives a benefit that is based on either her own work record or that of her ex-husband, assuming she satisfies the eligibility criteria; if her ex-husband is still alive, her benefit is based on half of his basic benefit. Under earnings sharing, her benefit would be based on a combination of her own earnings in years she was not married and shared earnings in other years, generally resulting in larger payments.

The results for these options also highlight two groups that might be adversely affected by earnings sharing. First, elderly couples in which the wives did not have substantial work histories--and their survivors--likely would be worse off, on average, under earnings sharing unless special protections were added. This, too, would result from replacing spousal benefits with benefits based on shared earnings records. It is the other side of the coin of success in achieving the first objective.

Second, widows (including divorced women with deceased ex-husbands) might not do much better, as a group, under earnings sharing than they would under current law; under one option (Modified II) they would do far worse. One reason many widows (and divorced women with deceased ex-husbands) would do worse under these earnings sharing plans is that these plans would treat all benefits for them as workers' benefits and eliminate actuarial reduction rules favorable to widows under current law. The actuarial reduction for a widow now is based on her age at the time she first receives survivor benefits, even if she has already been receiving benefits as a worker or spouse. Moreover, the present law limits the reduction in her survivor benefits stemming from the early retirement of her deceased

husband to 17.5 percent.<sup>8/</sup> Under the earnings sharing plans analyzed by HHS and CBO, her reduction, if any, would be based on her age at the time she first receives any benefits and, therefore, would often be larger. In addition, under the Generic plan, widows age 60 or 61 would no longer be eligible for survivors' benefits, whereas they are under current law.

The main difference between the Generic and the Modified plans for elderly beneficiaries would result from the liberalization of the special minimum benefit provisions in the latter plan. Under current law, the special minimum provides some long-term, low-wage workers with higher benefits than they would receive under the regular benefit formula. The expansion of the special minimum provided in the Modified plan would help beneficiaries who would otherwise have very low benefits. Married couples would receive the majority of these gains. Both earnings sharing plans would increase the progressivity of the Social Security benefit structure, with the special minimum provisions making the Modified plan the more redistributive of the two plans.

Each of the three options depicted in Summary Table 1 would result in many people receiving benefits significantly different from the amounts they would receive under current law. For example, under Generic I, in 2030 almost 7 million elderly widows and divorced women would gain at least 5 percent, with an average increase of 20 percent of their benefit under current law; over 2 million elderly widows and divorced women would incur a reduction in benefits of at least 5 percent, with an average loss of about 25 percent.<sup>9/</sup>

### Costs

The earnings sharing plans examined here would likely increase the total cost of the Social Security system.<sup>10/</sup> CBO's estimates for 2030 illustrate the relative magnitudes. Generic I is estimated to add 1.0 percent to the benefits that would be paid to elderly recipients in 2030 and Modified I to

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8. The special treatment of survivors under present law is likely to become more important as the age of full retirement is raised. Beginning in 2022, for example, a worker who started collecting benefits at age 62 (five years before the age of full retirement) would incur a 30 percent reduction.
  9. The elimination of the favorable actuarial reduction rules for widows would be a major cause of the large losses.
  10. The cost estimates in this report are estimated changes in benefit payments only; they do not include administrative costs.

add 2.6 percent; in contrast, Modified II would reduce by 1.5 percent Social Security benefits going to the elderly population. All of these options are estimated to raise the total program costs, however, because benefits would increase for the nonelderly population as well. <sup>11/</sup>

The Social Security Actuary's estimates indicate that the three options discussed here would add between 2.7 and 5.6 percent to total Social Security costs over the period from 1984 through 2058, with the costs growing over time. For example, the Generic I plan would add 0.7 percent between 1984 and 2008, and 3.9 percent between 2035 and 2058. Estimates of the costs of earnings sharing proposals are, however, subject to considerable uncertainty - especially for years far into the future.

The results illustrate the fundamental tradeoff that the Congress must address in its consideration of changes in the Social Security benefit structure: higher benefits for some recipients must be paid for through lower benefits for others or through higher taxes, or through a combination of the two. The options examined here would generally pay for some of the higher benefits going to married couples in which wives had relatively long work histories by providing lower benefits to couples in which the wives had fewer years of work experience; widows who worked many years would receive more, while other widows would get less; and divorced women would gain, while divorced men would lose. But additional revenues would also be needed.

#### INCREMENTAL OPTIONS

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Additional options examined in the HHS report would attempt to achieve one or more of the objectives for which earnings sharing proposals have been made, but more rapidly and without as large a change in the existing benefit structure. These "incremental" options could be considered either as alternatives to earnings sharing or as interim changes while an earnings sharing plan is being implemented.

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11. In particular, many homemakers could become eligible for disability benefits depending on the specific provisions of the plan. The issue of whether to provide disability insurance to people without substantial work histories is not addressed in this study. One option analyzed by HHS, Generic Earnings Sharing with Transition II (Generic II), would lower total costs by a small amount.

The CBO analysis illustrates this approach by combining options that would increase survivors' benefits--for example, by permitting survivors to inherit the earnings credits of their deceased spouses for the years during which they were married--with other options that would increase the auxiliary benefits of divorced spouses. The four specific combinations analyzed by CBO would increase the total benefits paid to Social Security recipients in 2030 by about 4 percent, with most of the increased benefits going to elderly widows and divorced women. The incremental options would provide the additional benefits much faster than earnings sharing, and, as a consequence, their costs in the early years would be much higher.



## CHAPTER I

# INTRODUCTION

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Passage of the Social Security Act fifty years ago laid the basis for the present Old Age, Survivors, and Disability Insurance (OASDI) program, as well as for a number of other programs. The original Social Security Act provided annuities only to retired workers and did not cover dependents and survivors. Amendments to include these groups began to be enacted in 1939, before any benefits had been paid. 1/

OASDI currently provides benefits to almost 37 million people, many of whom are receiving benefits as spouses of retired or disabled workers or as widows or widowers. Beneficiaries in May 1985, for example, included 25 million retired and disabled workers (some of whom were also receiving other benefits); over 3 million recipients receiving benefits as spouses of retired or disabled workers (including ex-spouses of retired workers); and almost 5 million widows and widowers who were receiving benefits based on their deceased spouses' earnings. (Most of the other 4 million recipients were dependent children.)

One of several recurring issues regarding the Social Security system concerns the fairness and adequacy of its provisions with respect to two-earner couples, ex-spouses, and survivors. Most recently, when the Congress enacted major changes in 1983 designed to assure the financial soundness of the Social Security retirement and disability system well into the 21st century, a number of proposals were considered that would fundamentally change the methods by which earnings covered by the Social Security Act are credited. In particular, proposals were made that involved crediting each spouse with one-half of the combined covered earnings of husbands and wives for the purpose of determining Social Security benefits--"earnings sharing." 2/

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1. Legislation to provide benefits for dependents and survivors of retired workers was enacted in 1939; benefits for disabled workers in 1956; benefits for dependents of disabled workers in 1958; and benefits for certain divorced spouses in 1965.
  2. Congressional interest in earnings sharing precedes the 1983 Amendments. For example, the Social Security Amendments of 1977 directed the Secretary of Health, Education, and Welfare to examine proposals to eliminate dependency as a factor in the determination of a spouse's Social Security benefits. Earnings sharing was one of the options analyzed in the resulting report to Congress by the U.S. Department of Health, Education, and Welfare, *Social Security and the Changing Roles of Men and Women* (February 1979).

The interest in earnings sharing led the Congress, in the Social Security Amendments of 1983, to direct the Secretary of Health and Human Services (HHS) to prepare a report on earnings sharing. This section of the amendments also directed the Congressional Budget Office (CBO) to submit a study to the Senate Committee on Finance and to the House Committee on Ways and Means on "the methodologies, recommendations, and analyses used in the Secretary's report."<sup>3/</sup> The present paper responds to this requirement.

### THE HHS REPORT

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In 1985, HHS prepared a 632-page report that provides an extensive discussion of earnings sharing.<sup>4/</sup> The bulk of the HHS report analyzes the effects on costs and on major beneficiary groups of two specific earnings sharing plans. It specifies two sets of provisions covering the transition period when the system would be moving from its present structure to one based on earnings sharing. These would cushion the passage by providing at least partial guarantees of current law benefits to some beneficiaries who would otherwise incur losses under earnings sharing. The report also estimates the effects of providing recipients with a "no-loser" guarantee--that is, guaranteeing them the higher of their benefits under earnings sharing or under current law.

The principal method used by HHS to estimate the potential effects on beneficiaries of changing the Social Security system involves simulating the characteristics of the beneficiary population in a future year and then applying the benefit rules under each option to that population. Most of the HHS analysis is based on a simulated population for the year 2030--40 years after earnings would have begun to be shared under the major options examined. Long-range costs are estimated by the Social Security Administration's Office of the Actuary for the 75-year period ending in the year 2058--that is, the period 1984-2058.

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3. The 1983 Social Security Amendments address some related issues as well. For example, they permit eligible divorced spouses to receive benefits based on their former spouses' earnings whether or not the former spouses have applied for benefits. Other provisions improve benefits for certain widows and eliminate virtually all remaining gender-based distinctions in the Social Security legislation. For a summary of the 1983 Amendments, see John A. Svahn and Mary Ross, "Social Security Amendments of 1983: Legislative History and Summary of Provisions," *Social Security Bulletin*, vol. 48 (July 1983), pp. 3-48.
  4. U.S. Department of Health and Human Services, *Report on Earnings Sharing Implementation Study* (January 1985). All subsequent references to this study will cite it as the HHS report.



The HHS report used the same methodology to analyze 24 options other than earnings sharing that could be used to address one or more of the problems for which earnings sharing has been proposed. These "incremental" options would increase benefits for widows, working women, divorced women, or homemakers without requiring as large a change in the Social Security benefit structure as would the earnings sharing options. They are presented by HHS for consideration either as alternatives to earnings sharing or as interim steps.

Other major parts of the HHS report include a detailed discussion of the potential effects of earnings sharing on the administration of the Social Security system and a report by a contractor, the Research Triangle Institute, on the concerns of various interest groups regarding the treatment of women under the Social Security system. These aspects of HHS's study are not addressed in the CBO report.

#### ASSESSMENT OF THE HHS STUDY AND OVERVIEW OF THE CBO REPORT

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The HHS study well illustrates the extent to which the effects of earnings sharing on specific beneficiary groups and on total costs would depend on the exact terms of the plan. CBO has no criticism of the basic methodology used by HHS to estimate the effects of the options that it examined or of the way its methodology was applied. The microsimulation approach HHS used is the most appropriate method of estimating the potential effects on future recipients of a major change in the Social Security benefit structure. Nonetheless, specific estimates based on simulation models are subject to a wide range of errors. For example, the assumptions concerning future economic and demographic trends could turn out to be wrong, or the past behavioral relationships on which the models are based could shift in future years. Likewise, any Social Security cost projections are subject to error, particularly for periods far into the future.

The simulations provide an enormous quantity of information about the potential effects of a policy option on future beneficiaries, which can be tabulated and summarized in many ways. The HHS report emphasizes the percentages of people in various groups whose benefits under an option would be at least 1 percent higher or lower than under current law in the year 2030. In view of the uncertainty of the estimates, the number of years into the future for which the benefits are being projected, and the expectation that real benefits will be much larger in the future than they are today, differences as small as 1 percent may be too small to be meaningful.

This report is intended to complement the analyses of HHS and to provide additional perspectives on the findings. CBO examined several options and issues not addressed in the HHS report. For example, the new study conducted by CBO and reported here includes: an additional transition option for implementing earnings sharing; an alternative version of the "no-loser" guarantee; an analysis of the sensitivity of some of the estimated effects on costs and on beneficiaries to changes in women's working patterns and to future divorce patterns; and estimates of the effects of combining pairs of incremental options.

The CBO study uses the same basic methodology as HHS to examine the structure of benefits under each option, highlighting different aspects of the estimates. For example, each earnings sharing option's effect on the average benefits paid to elderly couples (and their survivors) in which the wives worked at least 30 years is compared with the option's effect on elderly couples in which the wives had less work experience. In addition, the analysis focuses on those whose benefits would be at least 5 percent higher or lower than under current law in order to pinpoint the circumstances in which a substantial change in a person's benefits might result.

Chapter II of this report briefly explains why earnings sharing has been proposed. The relevant provisions of the current Social Security benefit structure and the problems that result from these provisions are identified. Chapter III describes how earnings sharing proposals address these problems. It also sets forth criteria that can be used to judge the extent to which specific options would achieve the objectives of earnings sharing. Readers already familiar with the Social Security system and with earnings sharing may wish to go directly to Chapter IV.

Chapter IV presents CBO's analysis of several specific earnings sharing options. The potential long-term characteristics of the two plans included in the HHS report are explored and then the effects of five specific options based on these plans are estimated. Chapter V presents CBO's analysis of four illustrative combinations of several of the incremental options that were included in the HHS report.

The potential costs of the earnings sharing options and of the incremental options are examined in Appendix A. Alternative methods of measuring these costs and the uncertainty of the cost projections are discussed. Other appendixes discuss the simulation methodology used by HHS and by CBO and its limitations (Appendix B); present additional tables on the distributional effects of the earnings sharing options analyzed in Chapter IV (Appendix C); and briefly describe the incremental options included in the HHS report (Appendix D).

## CHAPTER II

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### WHY EARNINGS SHARING

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### HAS BEEN PROPOSED

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Earnings sharing is a response to several issues that have been raised concerning the current benefit structure of Social Security. This chapter summarizes key provisions of the Social Security benefit structure and the issues that give rise to earnings sharing proposals. Provisions that affect only a small percentage of beneficiaries are not discussed unless they are directly relevant to the assessment of these proposals.

### RELEVANT PROVISIONS IN THE SOCIAL SECURITY ACT

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The Social Security Act provides workers who retire or become disabled with lifetime benefits that are related to their past earnings levels. In general, workers who reach age 62 after 1990 must have worked in employment covered by Social Security at least 10 years; a shorter work history is sometimes sufficient to be eligible for disability benefits.<sup>1</sup> Spouses' benefits, widows' and widowers' benefits, and benefits to certain children of retired, deceased, and disabled workers are also based on insured workers' past earnings.

These benefits are financed through payroll taxes levied on workers and their employers. In 1985, workers and their employers each contributed 5.7 percent of covered earnings up to \$39,600, for a maximum tax of

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1. A worker must be fully insured to be eligible for retirement benefits, which requires having a specified number of quarters of coverage. For those attaining age 62 after 1990, 40 quarters will be required. For disability benefits, fewer quarters may be needed to be fully insured, but the worker must also have worked at least 20 out of the last 40 quarters preceding the onset of disability (except for workers under age 32). Beginning in 1978, each \$250 of annual earnings resulted in one quarter of coverage up to a maximum of four quarters annually. This earnings requirement is automatically increased each year to reflect the growth in overall wage levels; in 1985, the amount needed for one quarter of coverage is \$410.

\$2,257 each. 2/ The tax rate is scheduled to increase in steps to 6.2 percent in 1990. The taxable earnings maximum is automatically adjusted each year to reflect changes in average earnings. 3/

### Workers' Benefits

Benefits of retired and disabled workers are based on their earnings histories in employment covered by Social Security, expressed as an average over their working lifetimes known as the Average Indexed Monthly Earnings (AIME). From this, a formula is used to calculate a worker's Primary Insurance Amount (PIA), which is then adjusted for a number of factors, such as reductions for early retirement, credits for later retirement, and increases for inflation. 4/

An insured worker becomes eligible for early retirement benefits at age 62. Currently, eligibility for full retirement benefits is at age 65. The Social Security Amendments of 1983 increased this age of retirement with full benefits to 67, with the change phased in through two steps in the first quarter of the next century.

A worker's AIME depicts the average wage earned in covered employment, with some adjustments. Each year's earnings for which Social Security taxes were credited are indexed to the average wage level in the year of the worker's sixtieth birthday. (Earnings when age 60 or older are entered without being indexed.)

The number of years upon which the AIME is based equals five less than either the number of years after 1950 or the year in which the worker became age 21, if later (and before the worker reaches age 62). Thus,

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2. An additional 1.35 percent tax is levied on employers and on employees for the Medicare part of Social Security; the tax rate is scheduled to increase to 1.45 percent in 1986.
  3. The adjustment is based on the change in average wages and is made for the year following a year in which an automatic benefit increase becomes effective (as discussed below).
  4. Throughout this report, references to a worker's earnings denote earnings covered by Social Security for the purpose of determining worker benefits. For additional details on the calculation of benefits, see Congressional Budget Office, *Financing Social Security: Issues and Options for the Long Run* (November 1982), Chapter III, on which the following description is largely based.

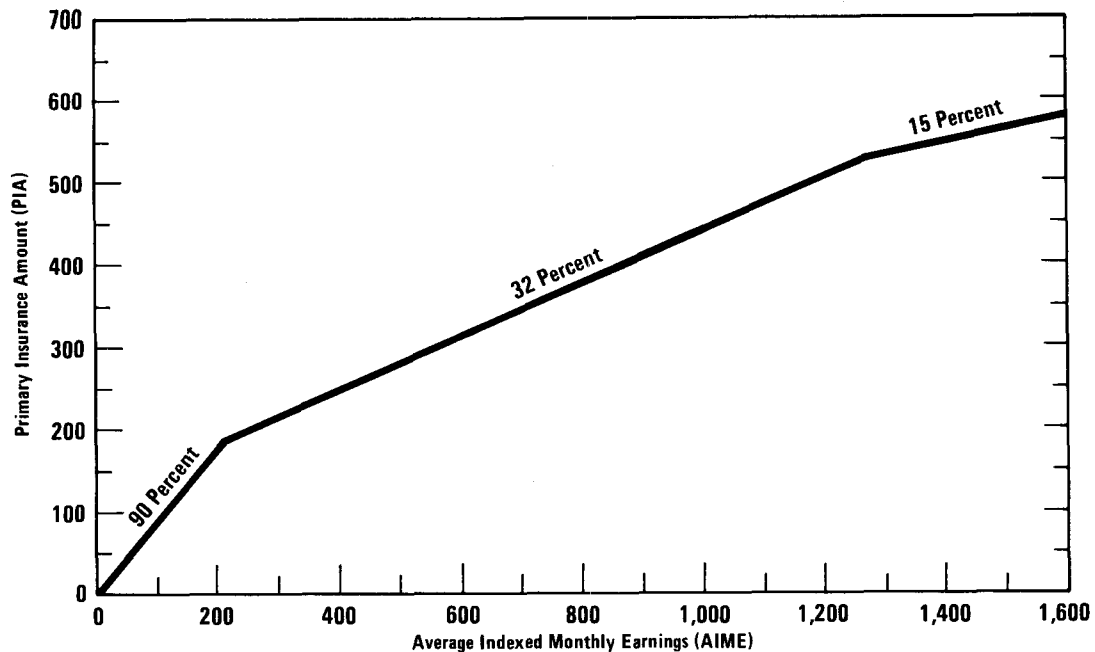
workers who have earnings in more than the required number of years are able to drop out their five lowest indexed earnings years--including years in which they had no covered earnings. If the worker has earnings in fewer years than the number required, zeroes are entered into the AIME calculations to make up the required number. Total indexed earnings are then divided by the total number of months in the computation years to arrive at the AIME. Earnings received subsequent to the initial calculation can be substituted for those in any previous year if that would increase benefits.

To convert this earnings history to a worker's PIA, a formula is applied that is progressive in the sense that it is designed to provide benefits that are a higher proportion of preretirement earnings for those with low average earnings than for those with higher earnings. This largely reflects a perception that relatively high replacement rates--that is, benefits as a proportion of preretirement earnings--are necessary for those with relatively low earnings, in order to provide them with adequate retirement incomes.

Under the formula, 90 percent of the first part of a worker's AIME is replaced by Social Security benefits, but for subsequent portions of the AIME the proportion falls, first to 32 percent and finally to 15 percent. (See Figure 1 for an illustration of the formula.) For workers who reached age 65 in 1984--and thus initially became eligible for retirement benefits in 1981 (that is, turned age 62 in that year, whether or not actually retiring then)--the formula is as follows: a worker's PIA equals 90 percent of the first \$211 of the AIME, plus 32 percent of the AIME between \$211 and \$1,274, plus 15 percent of the AIME over \$1,274. The points at which the percentage of the AIME replaced by the PIA changes are known as "bend points." They are indexed to average annual earnings for the labor force as a whole, so that as wages rise over time, the average replacement rates (the ratio of PIA to earnings) are maintained. This also assures that two individuals with similar relative earnings histories will have PIAs that are approximately the same proportion of their AIME, even if they become age 62 in different years. For workers who become eligible in 1985, the bend points are \$280 and \$1,691.

In general, workers receive 100 percent of their own PIAs in benefits if they first receive benefits at the age of full retirement. The benefit is reduced if they retire earlier; for example, a worker who retires at age 62, which is currently three years before the age of full retirement, receives a 20 percent reduction. Workers still will be able to retire at age 62 after the age of full retirement is increased, but the benefit reduction will be larger. For example, a worker who retires at age 62 in 2022--when the full retirement age will be 67--will receive a 30 percent reduction. Likewise, a

Figure 1.  
Primary Insurance Amounts in Relation to Average Indexed Monthly Earnings Under Current Law, for Workers Who Turned Age 62 in 1981



SOURCE: Congressional Budget Office.

NOTE: For workers in this cohort who retired at age 65 (in 1984), the PIA would be based on the formula illustrated in this figure, with the amounts increased by the cost-of-living adjustments effective in 1981, 1982, and 1983.

credit is given for later retirement. For example, a worker who delays receipt of benefits until age 70 in 2030--three years beyond the full retirement age--will receive a 24 percent increase.<sup>5/</sup> Beginning with the year of initial eligibility (age 62 for retired workers), the PIA is increased each year for the increase in the Consumer Price Index (CPI), measured by the percentage increase from the third quarter of one year to the third quarter of the next year.<sup>6/</sup>

5. The current delayed retirement credit is 3 percent for each year past the full retirement age. This increment will be increased in steps, starting in 1990, until it reaches 8 percent in 2008.
6. If the CPI increases by less than 3 percent, the cost-of-living adjustment is delayed until the following year, at which time the PIA is adjusted for the increase in the CPI during the two-year period.

Finally, benefits may be withheld if recipients continue to work after starting to receive benefits. Retirement benefits received by those under age 70 are reduced by \$1 for every \$2 of earnings over the exempt amount applicable for that year. The annual exempt amount of earnings is indexed for changes in average wages. In 1985, this "earnings test" applied to earnings over \$7,320 for recipients age 65 through 69 and \$5,400 for those under age 65. Beginning in 1990, the earnings test benefit withholding rate will decrease to \$1 for every \$3 of earnings above the exempt amount.

To illustrate the present benefit structure, consider a worker who retired at age 65 in 1984 with an AIME of \$1,000, had no dependents, and had no subsequent earnings. The PIA would be based on the bend points applicable in 1981, the year in which the worker reached age 62. Thus, the PIA, before cost-of-living adjustments, would be \$442 per month.<sup>7/</sup> This would be increased by the cost-of-living adjustments effective in 1981, 1982, and 1983, which provided a cumulative increase of 23.6 percent, raising the monthly benefit in 1984 to \$546 (\$6,552 annually).

One relevant exception to this procedure for determining worker benefits is the special minimum benefit for long-term, low-wage workers. Under this alternative calculation, a worker's PIA is determined by multiplying the number of years in excess of 10 (but not more than 20) in which earnings were at least a specified percentage of the maximum taxable wage by a flat dollar amount (\$18.70 in 1985).<sup>8/</sup>

### Auxiliary Benefits

Spouses and survivors of workers may also be eligible for benefits based on the workers' PIA. Consider, for example, a retired worker with a spouse who never worked in covered employment. Assume that the spouse is the same age. For convenience, the worker will be assumed to be the husband--although the benefit structure does not make a distinction based on gender. The spouse of a retired worker is entitled to an auxiliary benefit equal to 50 percent of the worker's PIA. In the illustration in which the worker's

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7. The PIA in 1981 dollars would equal 0.90 times \$211 plus 0.32 times \$789.
  8. The original requirement, in 1972, was that the worker must have earned at least 25 percent of the maximum taxable earnings in order to be credited with a year of coverage. For this purpose, ad hoc increases in the tax base are not counted. That is, the additional increases in 1979 through 1981 are not included. Thus, the effective requirement in 1985 is that the worker earn about 19 percent of the maximum.

PIA was \$546, the wife's benefit would be \$273 per month, raising the total monthly Social Security benefits that would be paid to this couple to \$819 (\$9,828 per year).

If, however, the spouse starts receiving benefits before the age of full retirement, spousal benefits are reduced. The maximum reduction under current rules is for spouses who begin receiving benefits at age 62; their benefits are reduced by 25 percent. Persons receiving spousal benefits who have earnings above the annual exempt amounts for their age have their benefits withheld as well. In addition, benefits for spouses may be withheld if the worker on whose record their benefits are based has earned over the exempt amount.

Three other major aspects of the Social Security benefit structure must be understood as a prelude to a discussion of earnings sharing: auxiliary benefits for divorced spouses, widows' benefits, and benefits for persons who are eligible based on their own earnings records as well as on their spouses' records. <sup>9/</sup>

Divorced Spouses. Under current law, divorced spouses are entitled to spousal benefits as if still married, if the marriage lasted at least 10 years and they are not married at the time they become eligible for benefits, and if they meet the other eligibility requirements, such as age. Benefits for a divorced spouse are not contingent on the actual retirement of the former spouse. A divorced spouse who was not married for 10 years is not eligible for these auxiliary benefits.

Surviving Spouses. Widows and widowers--including surviving divorced spouses who meet the criteria for spousal benefits--generally are eligible for benefits based on 100 percent of the deceased worker's PIA. If the deceased worker retired early and, therefore, was receiving a reduced benefit, the widow's benefit would be limited to the amount the deceased worker would receive if still alive, except that her maximum reduction because of the deceased husband's early retirement would be 17.5 percent. In effect, a widow inherits her husband's earnings record to replace her own record--except that she cannot also receive the 50 percent spousal benefit. To be eligible to receive these benefits, the survivor must be at least age 60

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9. Total benefits payable on the basis of one worker's earnings are subject to a maximum for any one family. In general, if more than two members of a family are eligible for benefits based on one person's earnings record, total family benefits will not increase with additional family members. Benefits paid to divorced spouses (and divorced survivors) are not included in the family maximum.



or have a dependent child under age 16.<sup>10/</sup> In the illustration in which the husband's PIA was \$546, the wife (at the age of full retirement) would be entitled to \$546 per month.

The amount of a widow's benefit is also reduced if she begins to receive the benefit before the age of full retirement.<sup>11/</sup> Widows can receive reduced benefits as early as age 60 (age 50 if they are disabled), and the maximum reduction for age is 28.5 percent. If the deceased worker's benefit had been reduced because of early retirement, then the widow's benefit would equal either the amount the husband would be getting if still alive (subject to the 17.5 percent limit noted above) or the husband's PIA adjusted for the widow's age at the time she first receives survivor benefits - - whichever amount is lower.

Although the maximum reduction for early retirement will increase by 10 percentage points (from 20 percent to 30 percent for workers and from 25 to 35 percent for spouses), the maximum reduction for widows' benefits will not be increased when the age of full retirement is raised. This difference in the calculation of actuarial reductions will grow in importance because the majority of women likely will retire well before age 67 but fewer women will become widows before age 67. Implications of the actuarial reductions under current law for how widows would fare under earnings sharing are discussed in Chapter IV.

Entitlement as a Worker and as a Dependent. Many people eligible for auxiliary benefits as spouses, ex-spouses, or widows of workers are also eligible for benefits as workers based on their own earnings records. The general rule in these cases is that the total amount received equals the higher of the two benefits to which the person is entitled. If, for example, a woman is eligible for the spousal benefit as the wife of a retired worker and is also eligible for a smaller retired worker benefit based on her own earnings, then she receives an amount equal to the former benefit; this is recorded in the Social Security records as if she received her retired worker benefit plus the portion of the spousal benefit that exceeded her retired worker benefit. Such "dual entitlement," as defined in Social Security records, occurs only when the auxiliary benefit is the larger of the two benefits.

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10. In the latter case, the maximum benefit is 75 percent, rather than 100 percent, of the decedent's PIA.
  11. Disabled widows and widowers between the ages of 50 and 60 can receive 71.5 percent of the decedents' PIAs. Benefits to survivors between age 60 and 65 are reduced by slightly under one-half percent for each month (5.7 percent per year) under age 65 at the time of entitlement.

In the illustration used above, the wife is eligible for a spousal benefit of \$273. If she had also been eligible for a worker's benefit in her own right of, for example, \$200 then her total benefit would still be \$273--\$200 as a worker plus \$73 as a spouse. If, instead, she had also been eligible for a worker's benefit of \$300, then she would receive \$300 as a worker and would not be eligible for a spousal benefit.

#### ISSUES REGARDING TREATMENT OF TWO-EARNER COUPLES, DIVORCED WOMEN, AND WIDOWS

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The Social Security benefit structure outlined above has been criticized on grounds that can be broadly categorized as unfairness in the distribution of benefits and benefit inadequacy for certain groups. Criticisms that have given rise to earnings sharing proposals mainly involve questions having to do with the payments to married beneficiaries in which both spouses have substantial covered earnings, and with the adequacy of benefits received by divorced women and widows. These problems are described in this section.

This study (as well as the HHS report) does not address other fundamental issues concerning the Social Security system. In particular, all of the options analyzed would keep intact key features and premises of the current benefit structure: that benefits should be related, at least to some extent, to covered earnings; that the benefit structure should be progressive, in the sense that the percentage of wages replaced is higher for beneficiaries with low covered earnings histories than for beneficiaries with high past earnings; and that receipt of benefits should not be means-tested. Within this framework, considerable scope remains for varying the provisions that determine who receives what.

#### Treatment of Two-Earner Couples

Two closely related problems arise for married beneficiaries in which both spouses have substantial covered earnings. First, married women with earnings, who usually have both lower wages and shorter periods of labor force participation than their husbands, often receive little, if any, additional retirement benefits from their (and their employers') Social Security taxes. This occurs for such women because benefits to which they become entitled as workers offset, rather than augment, their benefits as spouses. Thus, among those who have retired, only women whose entitlements as workers exceed the benefits they would have received as spouses receive any additional retirement benefits as a result of the Social Security taxes